

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

AUDITED FINANCIAL STATEMENTS (AFS) December 31, 2020

This AFS includes the following basic Financial Statements:

Statement of Financial Position (Balance Sheet)
Statement of Income and Other Comprehensive Income
Statement of Changes in Equity
Statement of Cash Flows
Notes to Financial Statements

Cristobal C. Umale, CPA

48 Candelaria Street, Rosario Complex, San Pedro City, (Laguna)
www.ccumale.com; Email - info@ccumale.com
Mobile Number - 0908-814-7606

March 26, 2021

The Board of Directors

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

Dear Members of the Board:

In accordance with your instructions, I have undertaken the financial audit of the Banco Laguna, Inc. (A Rural Bank Since 1965), for the Financial Statements as of and for the year ended December 31, 2020.

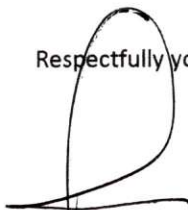
I am now submitting the following reports enumerated below:

1. Consolidated Certifications Required under MORB Section 174 and Appendix 55.
2. Supplemental Written Statement and Other Reports under SEC's Revised SRC Rule 68.
3. Audited Financial Statements as of and for the year ended December 31, 2020 with the following attachments:
 - a. Company-submitted Management Responsibility for Income Tax Return,
 - b. Company-submitted Management Responsibility for Financial Statements,
4. Letter of Comments (LOC) as required by MORB Section 174 or if there is none, a notarized certification for non-issuance of a Letter of Comments.
5. Disclosure required by MORB Section 174 presented in Note 26.

During the course of my audit, I received excellent cooperation from officers and members of your staff.

To them, I express my appreciation and my thanks.

Respectfully yours,



Cristobal C. Umale, CPA

TIN No. 207-149-953-000

CPA Certificate No. 0114744 expiry January 07, 2023

PTR OR No. 1374002, Issued at San Pedro City on January 07, 2021

BOA Reg. No.03838 valid until January 07, 2023

SEC Accreditation No. 114744-BSP - Group C for Bangko Sentral ng Pilipinas

Valid to Audit Until Year 2024 Financial Statements

BIR Accreditation: AN- 09-006575-001-2019, issue date 10/01/19 expiry on 10/01/22

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Banco Laguna, Inc. (A Rural Bank Since 1965) (Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2020 and December 31, 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

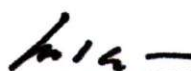
In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

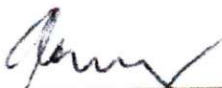
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders or members.

Cristobal C. Umale, CPA of 48 Candelaria Street, Rosario Complex, San Pedro City (Laguna), the independent auditor appointed by the stockholders, was engaged to audit the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature: 
Printed Name of the Chairman of the Board: KI MIEN TAN

Signature: 
Printed Name of the Chief Executive Officer/President: MARCO C. CABREZA

Signature: 
Printed Name of the Treasurer: ATRRIONE B. ABARQUEZ

Signed this 26th day of March 2021

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of the Banco Laguna, Inc. (A Rural Bank Since 1965) is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2020. Management is likewise responsible for all information and representations contained in the financial statements accompanying the (Annual Income Tax Return or Annual Information Return) covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value-added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020, and the accompanying Annual Income Tax Return are in accordance with the books and records of the Banco Laguna, Inc. (A Rural Bank Since 1965) complete and correct in all material respect. Management likewise affirms that:

(a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) the Banco Laguna, Inc. (A Rural Bank Since 1965) has filed all applicable tax returns, reports, and statements required to be filed under Philippine Tax laws for The reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signature: _____

Printed Name of the Chairman of the Board: MIEN TAN

Signature: _____

Printed Name of the Chief Executive Officer/President: MARCO C. CABREZA

Signature: _____

Printed Name of the Treasurer: AIRRIONE B. ABARQUEZ

Signed this 26th day of March 2021

Cristobal C. Umale, CPA

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Supplemental Written Statement

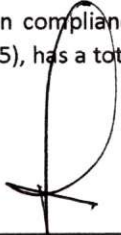
The Board of Directors

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

I have examined the financial statement of the Banco Laguna, Inc. (A Rural Bank Since 1965) for the year ended December 31, 2020, on which I have rendered the attached report dated March 26, 2021.

In compliance with the revised SRC Rule 68, I am stating that the Banco Laguna, Inc. (A Rural Bank Since 1965), has a total number of Four (4) stockholders owning one hundred (100) or more shares each.



Cristobal C. Umale, CPA

TIN No. 207-149-953-000

CPA Certificate No. 0114744 expiry January 07, 2023

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BIR Accreditation: AN- 09-006575-001-2019, issue date 10/01/19 expiry on 10/01/22

This certification is issued on March 26, 2021 at San Pedro City, Laguna.

Cristobal C. Umale, CPA

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Report of Independent Auditor to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

The Board of Directors

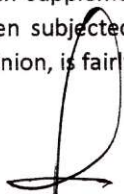
Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

I have audited in accordance with Philippine Standards on Auditing, the financial statements of Banco Laguna, Inc. (A Rural Bank Since 1965) for the year ended December 31, 2020, on which I have rendered my report dated March 26, 2021. My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following applicable supplementary information are presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68, and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards:

Reconciliation of Retained Earnings Available for Dividend Declaration

Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.



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INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

I have audited the accompanying financial statements of Banco Laguna, Inc. (A Rural Bank Since 1965) for the year then ended December 31, 2020, on which I have rendered the attached report dated March 26, 2021.

In compliance with Revenue Regulations V-20, I am stating that I am not related by consanguinity or affinity to the president, officers or principal stockholders of the Banco Laguna, Inc. (A Rural Bank Since 1965).



Cristobal C. Umale, CPA

TIN No. 207-149-953-000

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Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

As of December 31, 2020

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	P 61,518,658
Add: Net income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	P 4,366,075
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	-
Unrealized actuarial gain	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain	(7,851,730)
Adjustment due to deviation from PFRS/GAAP - gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Sub-total	(7,851,730)
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Sub-total	-
Net income (Loss) actually earned (Incurred) during the period	P (3,485,655)
Add (Less):	
Dividend declarations during the period	-
Adjustment due to the issuance of a BSP Memorandum	-
Appropriations of Retained Earnings during the period	-
Appropriation for Contingencies	-
Appropriation for Stock Dividend	-
Appropriation for Retirement of Officers and Employees	-
Reversal of appropriations	-
Effects of prior period adjustments	-
Treasury shares	-
Sub-total	-
TOTAL RETAINED EARNINGS, END - AVAILABLE FOR DIVIDEND*	P 58,033,003

**Note: Before declaring dividend, the Bank has to comply with the requirements of Sections 124, 125, 121 of the Manual of Regulations for Banks.*

Cristobal C. Umale, CPA

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REPORT OF INDEPENDENT AUDITOR

**The Board of Directors and Shareholders of
Banco Laguna, Inc. (A Rural Bank Since 1965)
No. 32 Rizal Street, Pagsanjan Laguna**

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of Banco Laguna, Inc. (A Rural Bank Since 1965) which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Banco Laguna, Inc. (A Rural Bank Since 1965) as at December 31, 2020, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

I conducted my audit in accordance with Philippine Standards on Auditing (PSAs). my responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Corporation in accordance with the Code of Ethics for Professional Accountants in the Philippines, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of a Matter

Without qualifying my opinion, I direct users of this Financial Statement to the discussion below:

As discussed in Note 9, Management represented that the recorded allowance for losses is sufficient enough based on existing BSP rules and regulations; the bank did not implement the Expected Credit Loss (ECL) model of PFRS - 9. The bank does not have a robust database of loss that will pave the way for the computation of "Loss-given default" - an essential factor in computing expected credit loss, hence the allowances that should have been recognized based on the provision of PFRS 9 - "Expected Credit Loss" method as of December 31, 2020, was not computed. The loan exposure is also not classified into "Stages" as required by the provision of PFRS 9.

This deviation did not result to a qualification of opinion but causes insertion of an Emphasis of a Matter paragraph. The Management and the Auditor believe that this deviation is not likely to affect any decision of those in charge with governance and those who will use the Audited Financial Statements.



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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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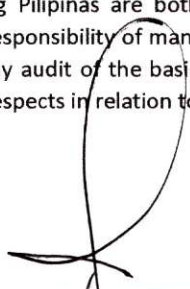
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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. my conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Regulatory Requirements

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Notes to Financial Statements is presented for purposes of filing with the Bureau of Internal Revenue, and the disclosure required under Section 174 of the Manual of Regulation for Banks is for the filing to the Bangko Sentral ng Pilipinas are both not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.



Cristobal C. Umale, CPA

TIN No. 207-149-953-000

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Issued on March 26, 2021 at San Pedro City, Laguna.

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

Comparative Statements of Financial Position

As of December 31, 2020 and 2019

Amounts are in Philippine Pesos

Account Titles	Notes	2020	2019
<u>Assets</u>			
Cash and Other Cash Items	7	8,379,611	4,994,198
Due from Bangko Sentral ng Pilipinas	7	11,914,612	12,055,209
Due from Other Banks	7	91,750,229	61,569,377
Investment in Securities Measured at Amortized Cost	8	109,547,944	84,115,604
Loans and Other Receivables - net	9	249,569,527	314,422,417
Bank Premises, Furniture, Fixtures and Equipment - net	10	33,745,325	34,974,557
Investment Properties - net	11	12,474,990	6,783,732
Other Assets - net	12	1,018,785	1,100,162
Total Assets		P 518,401,023	P 520,015,256
<u>Liabilities and Capital Funds</u>			
Deposit Liabilities	13	P 380,710,611	P 384,571,976
Bills Payable	14	-	3,792,754
Accrued Expenses and Other Liabilities	15	7,620,978	8,820,610
Deferred Tax Liabilities	24	1,749,760	-
Retirement liability	18	1,550,405	-
Total Liabilities		P 391,631,754	P 397,185,340
Capital Stock - Common	16	P 57,500,000	P 57,500,000
Retained Earnings Reserve	16	3,811,258	3,811,258
Retained Earnings Free	16	65,884,733	61,518,658
Remeasurement Loss on Retirement Liability	18	(426,722)	-
Total Capital Funds		P 126,769,269	P 122,829,916
Total Liabilities and Capital Funds		P 518,401,023	P 520,015,256
Book Value per Common Share	16	P 220.47	P 213.62

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

Comparative Statements of Income and Other Comprehensive Income

For the years ended December 31, 2020 and 2019

Amounts are in Philippine Pesos

Account Titles	Notes	2020	2019
INTEREST INCOME			
Interest - Loans and Other Receivables	9	P 38,957,647	P 43,011,914
Interest - Investments	8	2,926,075	4,179,726
Interest - Deposit with banks	7	333,371	149,704
Total Interest Income		P 42,217,093	P 47,341,344
INTEREST EXPENSE			
Interest - Deposits	13	P 4,467,284	P 4,120,710
Interest - Bills Payable	14	46,412	636,551
Total Interest Expense		P 4,513,696	P 4,757,261
NET INTEREST INCOME		P 37,703,397	P 42,584,083
OTHER INCOME			
Fees, Commission and Other Income		P 3,778,968	P 5,320,057
Profit From Assets Sold	17	1,331,290	5,643,377
Other Income		7,993,396	150,178
Total Other Income		P 13,103,654	P 11,113,612
Income before Other Expenses		P 50,807,051	P 53,697,695
OTHER EXPENSES			
Compensation and Fringe Benefits	18	P 20,228,196	P 21,220,451
Administrative Expense	20	11,001,024	11,716,799
Impairments and Provisions	21	5,241,001	15,437
Depreciation and Amortization	19	3,309,805	3,357,113
Taxes and Licenses		2,568,235	3,086,596
Total Other Expenses		P 42,348,261	P 39,396,396
Net Operating Income		P 8,458,790	P 14,301,298
Provision for Income Tax	24	P 4,092,715	P 4,160,591
Net Income Before Comprehensive Income		P 4,366,075	P 10,140,707
Other Comprehensive Loss			
Remeasurement Loss on Retirement Liabilities	18	(1,934,883)	-
NET INCOME		P 2,431,192	P 10,140,707
Earnings per Share	22	P 4.23	P 17.64

Banco Laguna, Inc. (A Rural Bank Since 1965)
No. 32 Rizal Street, Pagsanjan Laguna

Statement of Changes in Equity

As of December 31, 2020 and 2019

Amounts are in Philippine Pesos

	(No of Shares)			(In Pesos)	
	2020	2019		2020	2019
Ordinary shares					
Balance at beginning and end of year	575,000	575,000	P	57,500,000	P 57,500,000
Retained Earning Reserve					
Balance at beginning and end of year			P	3,811,258	P 3,811,258
Retained Earning Free					
Retained Earnings Free Beginning Balance			P	61,518,658	P 51,678,370
Net Earnings Closed to Retained Earnings				4,366,075	10,140,707
Tax Assessment Paid				-	(300,419)
Retained Earnings Free Ending Balance			P	65,884,733	P 61,518,658
Remeasurement on Retirement Liabilities					
Transition asset			P	1,508,161	P -
Total comprehensive loss for the year				(1,934,883)	-
Remeasurement on Retirement Liabilities			P	(426,722)	P -
Total Capital Funds			P	126,769,269	P 122,829,916

Banco Laguna, Inc. (A Rural Bank Since 1965)**No. 32 Rizal Street, Pagsanjan Laguna****Comparative Statements of Cash Flows**

As of December 31, 2020 and 2019

Amounts are in Philippine Pesos

		(In Pesos)	(In Pesos)
		2020	2019
Cash Flows from Operating Activities:			
Net Income before Non-cash Expenses and Income Tax	P	8,458,790	P 14,301,298
Less: Gain on foreclosure	11	(7,851,730)	-
Add: Impairments and Provisions	21	5,241,001	15,437
Add: Depreciation and Amortization	19	3,309,805	3,357,113
Add: Retirement expense	18	1,123,683	-
Less: Gain on Sale of investment properties	17	(1,181,291)	-
Less: Gain on Sale of Fixed Assets	17	(149,999)	(124,999)
Operating income before changes in working capital	P	8,950,259	P 17,548,849
(Increase) Decrease in operating assets:			
Loans & Receivable - net	9 P	59,909,076	P (31,019,280)
Investment Properties - net	11	-	3,351,322
Other Assets - net	12	(10,939)	(463,109)
Increase (Decrease) in operating liabilities:			
Deposit liabilities	13	(3,861,365)	13,278,756
Accrued Interest & Other liabilities	15	(524,125)	3,002,215
Income Taxes Paid	24	(3,064,062)	(4,461,010)
Net Cash Provided by Operating activities	P	61,398,844	P 1,237,743
Cash Flows from Investing Activities			
Additional Placement of Investments - net	8 P	(25,432,340)	P -
Proceed from Disposal of Investment Properties	11	1,384,057	-
Acquisition of Fixed Assets	10	(282,137)	(1,202,988)
Proceed from Disposal of Fixed Assets	10	149,999	139,988
Maturities of Investments - net	8	-	7,958,434
Net cash provided by (used in) Investing Activities	P	(24,180,421)	P 6,895,434
Cash Flows from Financing Activity:			
Settlement of Bills Payable	14 P	(3,792,754)	P (16,530,125)
Net increase (Decrease) in cash and cash equivalents		33,425,669	(8,396,948)
Cash and other cash items	7	4,994,198	4,696,888
Due from Bangko Sentral ng Pilipinas	7	12,055,209	11,650,754
Due from other banks	7	61,569,377	70,668,090
Cash and cash equivalents at the beginning of the period	P	78,618,784	P 87,015,732
Cash and other cash items	7 P	8,379,611	P 4,994,198
Due from Bangko Sentral ng Pilipinas	7	11,914,612	12,055,209
Due from other banks	7	91,750,229	61,569,377
Cash and cash equivalents at the end of the period	P	112,044,452	P 78,618,784

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

Notes to Financial Statements

December 31, 2020

Amounts in Philippine Pesos with comparative figures from December 31, 2019

1. CORPORATE INFORMATION

The BANCO LAGUNA, INC. (A Rural Bank Since 1965), formerly Rural Bank of Pagsanjan, Inc. (the Bank), was established in 1965 and registered with the Securities and Exchange Commission (SEC) under Registration Number 27173 on May 11, 1965. The bank corporate life has already been extended for another 50 years from May 11, 2015. The new corporate name was approved by the SEC on July 06, 2012.

The primary business objective of the Bank is to engage in the business of extending of credit to farmers and tenants, and to small and medium entrepreneurs including deserving rural industries and enterprises for productive and providential purposes.

Its principal Head Office address is located at Pagsanjan, Laguna, with now five (5) branches established in the municipalities of Sta. Cruz, Siniloan, Liliw, and Majayjay in the province of Laguna and a branch at municipality of Sariaya in Quezon province.

On January 4, 2021, SeaMoney Holding PH Private Limited ("SeaMoney Holding PH") acquired 60.00% ownership of the Bank. The Bangko Sentral ng Pilipinas (BSP) pre-approved the change of ownership on July 30, 2020, and such change was duly registered with the Securities and Exchange Commission on January 21, 2021. SeaMoney Holding PH is incorporated in Singapore.

Approval of Financial Statements

The financial statements of the Bank for the year ended December 31, 2020 (including the financial Statements and other data from previous year presented) were authorized for issue by the Bank's Board of Directors (BOD) on March 26, 2021.

Status of Operation

The financial statements of the Bank were prepared on a going concern basis. The going concern basis assumes that the bank will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business and there are no events or conditions which indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. The Bank presents all items of income, expense and other comprehensive income in a single statement of comprehensive income.

c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended standards and interpretations which became effective for the year 2020.

The adoption of these new standards, amendments and interpretations unless otherwise stated, did not have any material impact on the financial statements of the Bank. Others were cited in this report for information purposes and may not be applicable to the Bank. In case new standard is applicable to the Bank, detailed disclosures showing its effect in the Financial Statements were provided.

Amendments to PFRS 3, Business Combinations - Definition of a Business - Effective on January 01, 2020

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Amendments to PFRS 7, PFRS 9 and PAS 39 Interest Rate Benchmark Reform

The amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Revised Conceptual Framework - Effective on January 01, 2020

- defining a reporting entity, which may be a legal entity, or a portion of an entity;
- revising the definitions of an asset and a liability;
- removing the probability threshold for recognition and adding guidance on derecognition;
- adding guidance on different measurement basis; and,
- stating that profit or loss is the primary performance indicator.

PAS 1 and PAS 8 (Amendments) – Definition of Material - Effective on January 01, 2020.

- The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold.

COVID-19 Rent Related Concessions (Amendments to IFRS 16) - Effective on June 01, 2020.

- The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment does not affect lessors.

2.3 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, Financial Instruments: Presentation. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are as follows;

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met: (1) the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect the contractual cash flows; and, (2) the contractual terms of the instrument give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using effective interest method, less any impairment in value.

The Bank's financial assets at amortized cost are presented in the statements of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, Investment Securities, and Other Resources in respect of advance deposits, if there is any are presented as part of Others.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash and other cash items and non-restricted balances due from BSP and due from other banks. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. The Bank has not made such designation.

(b) Recognition of Interest Income

Interest income on financial assets at amortized cost is calculated by applying the effective interest rate (EIR) to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired and those that are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(c) Impairment of Financial Assets

Impairment losses is based on the BSP methodology as described in Circular 1011. This method is promulgated by the BSP to align the Bank's practice of recognizing impairment based on the "Expected Credit Loss" method mandated by the PFRS 9.

The Bank assesses its impairment based on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The key elements used in the calculation of ECL are as follow:

Probability of default — It is an estimate of likelihood of default over a given time horizon.

Loss given default - It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral.

Exposure at default - It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Definition of "default" and "cure"

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days and has exhibited a satisfactory track record.

(d) Derecognition of Financial Assets

(1) Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- a. If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- b. Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- c. Significant extension of the loan term when the borrower is not in financial difficulty;
- d. Significant change in the interest rate; and/or,
- e. Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a “new” asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment, calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the “new” asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(2) Derecognition of Financial Assets Other than Modification

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and a collateralized borrowing for the proceeds received.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment losses. All other items of bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:

Useful Life of Building	3 - 20 years
Useful Life of Furniture and Fixture	1 - 5 years
Useful Life of Office Equipment	1 - 5 years

Office equipment includes transportation and IT equipments.

Leasehold rights and improvements amortization if there is any, is computed over the lease term or the estimated useful life of the improvement, whichever is shorter. The estimated useful life of leasehold rights and improvements is five years depending on the nature of the improvement.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The residual values, estimated useful lives and method of depreciation of bank premises, furniture, fixtures and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge for depreciation is made in respect of those assets.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognized in profit or loss in the year the item is derecognized.

2.5 Investment Properties

Investment properties represent properties held either to earn rental income or for capital appreciation or for both, this also includes the foreclosed properties of the bank as required by the Manual of Regulations for Banks and available for sale after redemption period in the ordinary course of business.

The Bank adopted the cost model in measuring its investment properties; hence, these are stated at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises its purchase price and directly attributable costs incurred such as legal fees, transfer fees and other transaction costs. Direct operating expenses such as repairs and maintenance and real estate taxes are normally charged against current operations during the period in which these costs are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Investment properties including the related accumulated depreciation and any impairment losses are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Other Income in the statements of comprehensive income in the year of retirement or disposal.

2.6 Intangible Assets

Intangible assets pertain to initial franchise fees and software costs which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives over three years. Intangible assets include Software Costs as of December 31, 2020 and 2019.

2.7 Other Resources

Other resources pertain to other assets that are controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.8 Financial Liabilities

Financial liabilities, which include deposit liabilities and accrued expenses and other liabilities (except tax-related liabilities and retirement benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss as part of Interest Expense in the statements of comprehensive income.

Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost using the effective interest method for those with maturities beyond one year, less settlement payments.

Dividend distributions to shareholders if there is any, are recognized as financial liabilities upon declaration by the Bank's BOD.

Financial liabilities are derecognized from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statements of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events. This also includes any provisions of bank for losses and provision for retirement of employees.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Income and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis. Interest expense for all interest-bearing financial liabilities are recognized using the EIR of the financial liabilities which they relate.

The Bank earns interest income from loans and other receivables and investments (see accounting policy for financial assets). The Bank also earns service fees and commissions on various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved.

These revenues are accounted for by the Bank in accordance with PFRS 15. For revenues arising from various banking services, which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

(a) Service charges, fees and commissions – are recognized as earned when collected or when there is reasonable degree of certainty as to their collectability and based on the agreed term and conditions with customers which are generally when the services has been performed. This is included as part of the Other Income in the statements of comprehensive income.

(b) Penalties – these are charges from deposit accounts that fall under dormancy or maintaining balance. These fees are recognized at the time of dormancy. Penalty is also imposed against non-payment of loans and receivables.

(c) Gains or losses on sale of non-financial assets – Gains on sale of properties under Other Income include net gains or losses from the disposals of bank premises, furniture, fixtures and equipment and investment properties. The Bank recognizes the gain on sale at the time the control of the assets is transferred to the buyer, when the Bank does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured. Thus, revenue is recognized at a point in time.

2.12 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, investment properties and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

At each reporting date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the greater of its fair value less cost to sell and value in use. Where the carrying amount of the asset or the cash-generating units exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year which it arises.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.13 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The present value of the defined benefit obligation is calculated annually by an independent actuary. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

(b) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Compensated Absences and Other Employee Benefits

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. In addition, the Bank recognizes a liability and an expense for other employee benefits based on a formula that is fixed, regardless of the Bank's income after certain adjustments, and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation. They are included in Accrued Expenses and Other Liabilities account in the statements of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.14 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, provided such tax rates have been enacted or substantively enacted at the end of reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

2.15 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

The Bank's policy on transactions with related parties is to ensure that these are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. Related party transactions should not involve more than the normal risk of collectability or present other unfavorable conditions.

2.16 Equity

Capital stock represents the nominal value of shares that have been issued.

Retained earnings - Free represents all current and prior period results of operations as reported in the profit and loss section of the statements of income and other comprehensive income, reduced by the amounts of dividends declared, if any.

2.17 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Evaluation of Business Model Applied in Managing Financial Instruments

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank has developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

(b) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, the Bank assesses whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

(c) Distinguishing between Investment Properties and Owner-managed Properties

The Bank determines whether a property qualifies as an investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the Bank's operations.

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations or as Investment Properties if the Bank intends to hold the properties for capital appreciation or for rental.

(d) Classification and Determination of Fair Value of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if the property is expected to be used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered through sale rather than use and the disposal is expected to be materialized within one year, as part of Other Resources if the properties will be recovered through sale but the probability of sale is not within 12 months from the end of the reporting period, or as Investment Properties (for real properties) if held for currently undetermined future use and is regarded as held for capital appreciation or for sale but the disposal is expected not to be materialized within one year. Fair values of acquired properties are determined by independent or in-house appraisers using the market data approach. Valuations were derived on the basis of recent sales of similar properties in the same area as the acquired properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

(c) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition of provisions and contingencies are discussed above.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Estimating Impairment of Financial Assets

The Bank provides ECL for financial instruments that have passed the SPPI test (see Note 2.3). The Bank's ECL calculations are based on BSP's Appendix 15 of the Manual of Regulations for Banks (renumber from Appendix 18, effective 18) in conjunction with the provisions of BSP Circulars 855 and 1011.

These pronouncements from the BSP details the underlying assumptions which also include the criteria for assessing if there has been a significant increase in credit risk.

As a general rule, especially mentioned and substandard — underperforming (e.g., substandard accounts that are unpaid or with missed payment of less than 90 days) shall be considered Stage 2 accounts, while substandard non-performing, doubtful and loss accounts shall be considered as Stage 3 accounts. The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on the BSP's requirement to look beyond the quantitative considerations (days past due or missed amortizations) in assessing borrower's capacity to pay.

(b) Determination of Fair Value Measurement for Financial Assets

The Bank carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument -which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument.

The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss and other comprehensive income.

Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Investment Properties

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and, investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and, investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Based on management's assessment as at December 31, 2020 and 2019, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors used in the estimation.

Estimating Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment loss was recognized on bank premises, furniture, fixtures and equipment in 2020 and 2019 (see Note 10). Impairment losses on investment properties in 2020 and 2019 are disclosed in Note 11.

Determining Fair Value of Investment Properties

The Bank's investment properties are composed of parcels of land acquired from defaulting borrowers not held-for-sale in the next 12 months, which are measured at cost. The estimated fair values of these assets, as disclosed in Note 11, are determined by in-house and/or independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties.

For investment properties with updated appraisal conducted that are still valid as of the end of the reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of the fair value of those properties. (see Note 11).

Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the carrying amount of unrecognized deferred tax assets recognized in the statements of financial position as disclosed in Note 24 may not be fully utilized in the coming years.

Valuation of Post-employment Benefit Obligation

As discussed in Note 20 of the Notes to Financial Statements discussing the Compensation and Fringe Benefits, the bank obtained an actuarial valuation of its employees' retirement benefits computed using the projected unit credit method as of December 31, 2020 as required by PAS/IAS 19, Employee Benefits and PAS/IAS 26, Accounting and Reporting of Retirement Plan, hence the PAS required defined benefit obligations and defined benefit costs are recognized in the Bank's financial statements.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

4.1 Integrated Risk Management Framework

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market, liquidity and operations risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank to optimize the risk-reward balance and maximize return on the Bank's capital.

4.2 Risk Responsibilities

The BOD directs the Bank's over-all risk management strategy and performs an oversight function on the Bank's implementation of its risk policies through the help of two independent functions the Compliance Officer and the Internal Auditor.

4.3 Financial Risk Management

The Bank's financial instruments comprise of cash and cash equivalents, receivables and payables, which arise from operations, and investments. Risks are inherent in these activities but are managed by the Bank through continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing each of these risks summarized below and in the succeeding pages.

4.3.1 Credit Risk

Credit risk is the risk that a counterparty fails to make repayment in full or partially. It arises from lending, treasury and other activities undertaken by the Bank. The Bank has a moderate appetite for credit risks, as reflected by a credit mix comprising secured and unsecured loans to individuals and corporates.

The Bank is exposed to credit risk from its operating activities and from its financing activities consisting of cash and loans and receivables. Credit Risk is quantified into performance metrics, (e.g. NPL, NPL Coverage Ratio) and these metrics are monitored and reported to the Board on a monthly basis. The credit strategy, such as credit mix is being reviewed and approved by the BOD. Tolerances for the Bank's daily credit activities are delegated by the Board to Credit Committees. Above a certain threshold, credit activities are approved directly by the BOD.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position, as summarized in the below.

	Notes		2020		2019
Due from BSP	7	P	11,914,612	P	12,055,209
Due from other banks	7		91,750,229		61,569,377
Investment in Securities Measured at Amortized Cost	8		109,547,944		84,115,604
Loans and Other Receivables - Net	9		249,569,527		314,422,417
		P	462,782,312	P	472,162,607

The Bank considers that due from BSP, Due from other banks and investment in securities measured at amortized cost are not impaired or past due at the end of reporting period and all are of good credit quality. The credit quality for loans and other receivables is disclosed under Note 9.

Due from BSP and Other Banks

The credit risk for Due from BSP and other Banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) No. 9576, Amendment to Charter of PDIC.

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Loans consist of a large number of customers in various industries and geographical areas.

Schedule of Impaired- Non Performing Receivables as of December 31:

	2020	2019
Past Due - Non-Performing	P 23,673,289	P 21,171,963
Sales Contract Receivable - Non-Performing	4,930,022	4,413,368
Total	P 28,603,311	P 25,585,331

4.3.2 Market Risk

Market risk is the risk to earnings and capital arising from the possible decline in value from its funding costs, placements with other banks and investments in securities. The Bank has a conservative appetite for market risk, as reflected by its stable deposit base and low reliance on investment income. Moreover, it ensures that each investment is in accordance with current BSP regulations.

(a) Interest Risk

The Bank's policy is to minimize interest rate cash flow risk exposures. When interest rates decrease, interest income from variable interest rate assets will drop, and losses might be incurred if the Bank is required to sell these assets; and when interest rates increase, the Bank's funding cost might increase as we might need to increase interest paid for customer deposits. The Bank considers the overall impact of the bank's interest rate-sensitive assets and liabilities over short, medium and long-term time horizons.

The following table illustrates the sensitivity of the Bank's profit before tax and equity to a reasonably possible change in interest rates of its placements and investments with all other variables held constant.

2020				
	Sensitivity Rate		Profit	Equity
	+/- %		Before Tax	
Investment at Amortized Cost	0.86%	P	941,292	P 753,033
Due from other banks	0.86%		788,365	630,692
		P	1,729,657	P 1,383,725
2019				
	Sensitivity Rate		Profit	Equity
	+/- %		Before Tax	
Investment at Amortized Cost	1.14%	P	962,247	P 769,797
Due from other banks	1.14%		704,328	563,462
		P	1,666,575	P 1,333,259

The sensitivity rates used in the analysis of both placements are based on the volatility of the BSP's compilation of monthly domestic rates on Treasury Bills on all maturities for the years presented. The rates used were computed using standard deviation of twelve end-of-months domestic rates.

4.3.3 Liquidity Risk

The Bank's liquidity risk is mainly due to the duration mismatch between assets and liabilities. Liquidity risk could snowball into crisis and trigger serious consequences such as a bank run. Liquidity shortfall happens when the short-term liability is due and there is not enough cashflow generated from assets to meet the obligation. The Bank has a conservative appetite for liquidity risk and has various options for emergency funding in the event of a liquidity crunch. Liquidity risk is quantified into performance metrics (e.g. Liquidity Ratio) and these metrics are stress tested under various scenarios and reported to the Board on a monthly basis.

The analysis of the maturity groupings of the Bank's financial assets and financial liabilities made and disclose in this financial statements. For the purpose of disclosure and to reflect the situational liquidity position, amount of past-due loans are presented in the longest time bucket. While Savings and Demand Deposits are presented in the earliest time bucket.

2020					
	Due Within One Year	Due Beyond One Year But Within Five Years	Due Beyond Five Years	Total	
Financial Assets:					
Cash and Other Cash Items	P 8,379,611	P -	P -	P	8,379,611
Due from Other Banks	91,750,229	-	-		91,750,229
Due from Bangko Sentral ng Pilipinas	11,914,612	-	-		11,914,612
Investment in Securities Measured at Amortized Cost	81,377,150	20,049,945	8,120,849		109,547,944
Loans and Sales Contract Receivables	67,516,815	93,903,022	P 88,149,690		249,569,527
Total	P 260,938,417	P 113,952,967	P 96,270,539	P	471,161,923

	Due Within One Year	Due Beyond One Year But Within Five Years	Due Beyond Five Years	Total
Financial Liabilities:				
Deposit Liabilities	P 380,710,611	P -	P -	P 380,710,611
Accrued Expenses & Other Liabilities	7,620,978	-	-	7,620,978
Total	P 388,331,589	P -	P -	P 388,331,589
Positive (negative) liquidity gap	P (127,393,172)	P 113,952,967	P 96,270,539	P 82,830,334
Cumulative Total Gap	P (127,393,172)	P (13,440,205)	P 82,830,334	P 165,660,668

2019				
	Due Within One Year	Due Beyond One Year But Within Five Years	Due Beyond Five Years	Total
Financial Assets:				
Cash and Other Cash Items	P 4,994,198	P -	P -	P 4,994,198
Due from Bangko Sentral ng Pilipinas	12,055,209	-	-	12,055,209
Due from Other Banks	61,569,377	-	-	61,569,377
Investment in Securities Measured at Amortized Cost	58,996,298	13,099,718	12,019,588	84,115,604
Loans and Sales Contract Receivables	103,793,538	65,941,398	144,687,481	314,422,417
Total	P 241,408,620	P 79,041,116	P 156,707,069	P 398,538,021

2019				
	Due Within One Year	Due Beyond One Year But Within Five Years	Due Beyond Five Years	Total
Financial Liabilities:				
Deposit Liabilities	P 380,710,611	P -	P -	P 380,710,611
Accrued Expenses & Other Liabilities	8,820,610	-	-	8,820,610
Bills Payable	3,792,754	-	-	3,792,754
Total	P 393,323,975	P -	P -	P 393,323,975
Positive (negative) liquidity gap	P (151,915,356)	P 79,041,116	P 156,707,069	P 5,214,046
Cumulative Total Gap	P (151,915,356)	P (72,874,239)	P 83,832,830	P 89,046,876

4.3.4 Operations Risk

Operational risk is the risk of direct or indirect loss from inadequate or failed internal processes, people and systems or from external events.

Managing operations risk in the Bank is founded on a sound internal control environment. Among the key components of a sound internal environment are recruitment and placement policies in place that ensure the integrity, ethics and competence of personnel; a written Code of Conduct; written policies and procedures that clearly establish accountability and responsibility, segregation of functions, verification and reconciliation procedures; and, an effective assurance and internal audit function. The Bank has a conservative appetite for operational risks. Risks are carefully analyzed in all the Bank's operational activities, including to ensure that the benefits of the risk control measures exceed their costs. Loss incidents are analyzed, escalated, recorded, and followed up by each business unit, as well as overseen by the second line of defense. The BOD has also set up a robust Internal Audit team that works closely with Management to ensure all relevant audit findings are closed expeditiously.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below:

	Note	2020		2019	
		Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets					
Cash and Other Cash Items	7	P 8,379,611	P 8,379,611	P 4,994,198	P 4,994,198
Due from BSP	7	11,914,612	11,914,612	12,055,209	12,055,209
Due from Other Banks	7	91,750,229	91,750,229	61,569,377	61,569,377
Loans and Other Receivables	9	249,569,527	323,563,450	314,422,417	388,555,635
		P 361,613,979	P 435,607,903	P 393,041,201	P 467,174,419
Investment in Securities Measured at Amortized Cost	8	P 109,547,944	P 110,033,547	P 84,115,604	P 84,685,076
		P 471,161,923	P 545,641,450	P 477,156,805	P 551,859,495

Note	2020		2019	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Liabilities				
At Amortized Cost:				
Deposit Liabilities	P 380,710,611	P 380,710,611	P 384,571,976	P 384,571,976
Accrued Expenses & Other Liabilities*	5,066,994	5,066,994	7,183,003	7,183,003
Bills Payable	-	-	3,792,754	3,792,754
	P 385,777,605	P 385,777,605	P 395,547,733	P 395,547,733

*excludes due to regulatory agencies and nonfinancial liabilities

This notes to Financial Statement discusses description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Bank's risk management objectives and policies for financial instruments is also provided.

Offsetting of Financial Assets and Financial Liabilities

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

Fair Value Hierarchy

In accordance with PFRS 13, Fair Value Measurement, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to the fair value. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Financial Instruments Measured at Fair Value

The Bank's has no financial assets of financial liabilities measured at fair value as of As of December 31, 2020 and 2019.

Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The fair values of financial assets and financial liabilities measured at amortized cost approximate their carrying values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. Except for Investment in Securities Measured at Amortized Cost, the carrying values of financial instrument such as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, Deposit Liabilities and Accrued Expenses and Other Liabilities approximates its fair value as at December 31, 2020 and 2019.

2020				
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Investment in Securities Measured at Amortized Cost	P 84,939,701	P 10,026,688	P 13,738,605	P 108,704,994
Total	P 84,939,701	P 10,026,688	P 13,738,605	P 108,704,994

2019				
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Investment in Securities Measured at Amortized Cost	P 84,115,604	P -	P -	P 84,115,604
Total	P 84,115,604	P -	P -	P 84,115,604

Fair Value Measurement for Non-financial Assets

Determining Fair Value of Investment Properties

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis.

2020				
	Level 1	Level 2	Level 3	Total
Investment Properties:				
Land	-	-	P 13,020,650	P 13,020,650
Building	-	-	6,394,760	6,394,760
Total	-	-	P 19,415,410	P 19,415,410

2019				
	Level 1	Level 2	Level 3	Total
Investment Properties:				
Land	-	-	P 7,368,000	P 7,368,000
Building	-	-	7,396,896	7,396,896
Total	-	-	P 14,764,896	P 14,764,896

The fair value of the Bank's investment properties is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

Fair Value Measurement for Land

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

Fair Value Measurement for Buildings

The Level 3 fair value of the buildings under the Investment Properties account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

Fair Value of Bank's Owned Lands and Buildings (Bank's Premises)

All bank premises (i.e. Land and Buildings and improvements) were appraised by an independent and licensed appraiser whose report was issued on May 15, 2019. The total Market Value of the Land stand at P57.95 Million while the total Market Value of Buildings and improvements stand at P32.57 Million. As at December 31, 2020, the bank premises does not have indicator of impairment.

7 - Cash and Other Cash Items, Due from BSP and Due from Other Banks

Cash and cash equivalents include the following components as of December 31:

	2020	2019
Cash in Vault	P 7,970,590	P 4,769,807
Checks and Other Cash Items	409,021	224,391
Due from BSP	11,914,612	12,055,209
Due from Other Banks	91,750,229	61,569,377
	P 112,044,452	P 78,618,784

Cash accounts with other banks generally earn interest based on daily bank deposit rates. Other cash items include cash items (other than currency and coins on hand), such as checks drawn on other banks after the clearing cut-off time until close of the regular banking hours.

Due from BSP represents the aggregate balance of noninterest-bearing deposit accounts in local currencies and to serve as a clearing account for the interbank claims.

In accordance with BSP regulations, the Bank is required to maintain regular reserves as deposit to the BSP against deposits at 2% and 3% of the outstanding balance thereof for 2020 and 2019, respectively. The Bank is in compliance with the reserve requirements of the BSP as at December 31, 2020 and 2019.

Due from Other Banks generally earn interest based on average daily balance at a depository bank's deposit interest rates. This account consist of the following items:

	2020	2019
Demand Deposit	P 2,370,171	P 1,899,563
Savings Deposit	50,312,995	51,638,900
Time Deposit	39,067,063	8,030,914
	P 91,750,229	P 61,569,377

Savings accounts represent clearing and other depository accounts with other banks which bear annual interest. Actual return for each type of deposit is shown:

	2020	2019
Time Deposit	P 245,571	P 51,353
Savings Deposit	85,482	97,096
Demand Deposit	2,318	1,255
	P 333,371	P 149,704

Deposit from other banks are placed on a varying rates ranging from 0.01% to 1.25%.

8 - Investment in Securities Measured at Amortized Cost

The Bank's investments as of the balance sheet date are as follows:

	2020	2019
Government Treasury Bills	P 81,215,000	P 59,265,000
Agrarian Reforms Bonds	13,818,547	12,420,076
Government Fixed Rate Treasury Note	10,000,000	10,000,000
Government Retailed Treasury Bonds	5,000,000	3,000,000
Total	P 110,033,547	P 84,685,076
Unamortized Discount	(485,603)	(569,472)
Net	P 109,547,944	P 84,115,604

As at December 31, the maturity profile of the Bank's investments follows:

	2020	2019
Within one year	P 81,377,150	P 58,996,298
Beyond one year but within five years	20,049,945	13,099,718
Beyond five years	8,120,849	12,019,588
P	109,547,944	P 84,115,604

Changes in investments are summarized in the roll-forward analysis shown below:

	2020	2019
Balance at beginning of year	P 84,115,604	P 92,074,038
Addition Placement	233,855,259	(7,958,434)
Less Termination	(208,422,919)	
Balance at end of year	P 109,547,944	P 84,115,604

The investment accounts represent 100% risk free investment in government debt equities which were availed of through authorized underwriters.

These investments earn interest at the rates ranging from 1.02% to 1.55%. The Bank earned an interest income from these investments, total recognized income from interest amounted to P2,926,075 and P4,179,726 in years 2020 and 2019, respectively, and are presented as Interest - Investments in the statements of income and other comprehensive income.

The Bank does not provide any allowance for credit losses and impairment as the management believes that these investments are reasonably collectible and their fair market values may not be materially affected by the present economic behavior. These investments were availed of from and guaranteed by the National Government.

9 - Loans and Other Receivables - Net

Loans and Receivables net of Discount are disclosed below:

Loans classified as to status

	2020	2019
Current Loans	P 219,201,125	P 289,803,220
Past Due - Non-Performing	23,673,289	21,171,963
Past Due - Performing	11,633,432	5,003,923
Gross Loans	P 254,507,846	P 315,979,106
Less: Unamortized Discount	(508,564)	(897,345)
Amortized Cost	P 253,999,282	P 315,081,761
Less: Allowance for Credit Losses	(23,509,209)	(20,422,951)
Less: General Loan Loss Provision	(3,053,124)	(3,330,117)
Net Loan Portfolio	P 227,436,949	P 291,328,693
Other Receivables		
Sales Contract Receivables (Note 9a)	P 15,131,398	P 17,846,597
Accrued Interest Receivables	6,925,769	5,047,577
Account Receivable- Net	75,411	199,550
Total Other Receivables	P 22,132,578	P 23,093,724
Loans and Other Receivables - Net	P 249,569,527	P 314,422,417

Past due non-performing loan accounts includes loan items in litigation.

Maturity Analysis of Loans and Receivables:

	2020	2019
Short Term (one year or less)	P 67,516,815	P 103,793,538
Medium Term (>1 year to 5 years)	93,903,022	65,941,398
Long Term (>5 years)	88,149,690	144,687,481
Total	P 249,569,527	P 314,422,417

Distribution of Loans per Type of Exposure

	2020	2019
Small and Medium Scale Enterprise	P 67,809,219	P 92,246,486
Other Agricultural Credit Loans	21,004,355	19,530,695
Loans to Individuals for Personal Use Purposes	12,847,734	29,466,677
Loans to Individual for Housing Purposes	6,910,293	1,341,483
Loans to Private Corporation	5,740,935	2,968,878
Microenterprise Loans	4,337,042	-
Agrarian Reform Loans	2,874,991	3,242,479
Loans to Individuals for Other Purposes	132,474,713	166,285,062
Amortized Cost	P 253,999,282	P 315,081,761

December 31, 2020

	Current	Past Due Performing	Past Due Non-Performing
Medium Scale Enterprise	P 40,466,760	P 850,000	P -
Small Scale Enterprises	24,478,066	1,308,632	705,760
Other Agricultural Credit Loans	17,206,185	40,000	3,758,170
Loans to Individuals for Personal Use Purposes	12,506,143	61,008	280,583
Housing Loans	6,910,293	-	-
Loans to Private Corporation	5,740,935	-	-
Microenterprise Loans	4,337,042	-	-
Agrarian Reform Loans	2,874,991	-	-
Other Purposes	104,680,710	9,373,792	18,928,776
TOTALS	P 219,201,125	P 11,633,432	P 23,673,289

December 31, 2019

	Current	Past Due Performing	Past Due Non-Performing
Medium Scale Enterprise	P 62,301,223	P 549,345	P 4,030,317
Small Scale Enterprises	24,694,985	-	670,616
Other Agricultural Credit Loans	16,243,904	611,451	2,675,340
Loans to Individuals for Personal Use	28,743,762	181,958	540,957
Agrarian Reform Loans	3,242,479	-	-
Loans to Private Corporation	2,968,878	-	-
Housing Loans	1,341,483	-	-
Other Purposes	149,369,161	3,661,169	13,254,733
TOTALS	P 288,905,875	P 5,003,923	P 21,171,963

These loan exposure earns interest ranging from 8.0% to 24.0% per annum in 2020 and 2019. Interest income on loans and other receivables amounted to P38,957,647 and P43,011,914 in 2020 and 2019, respectively, and are presented as Interest Income on loans and others receivables in the Comparative Statements of Income and Other Comprehensive Income.

Loans classified as to type of security

	2020	2019
Secured by Real Estate Mortgage	P 229,750,429	P 274,123,570
Unsecured Loans	24,248,853	40,958,191
Amortized Cost	P 253,999,282	P 315,081,761

Roll forward analysis of acquisition costs for the year ended December 31, 2020

	Beginning Balance	Additions	Reversals	Ending Balance
Buildings	P 34,647,529	P -	P -	P 34,647,529
Land	18,801,668	-	-	18,801,668
Office Equipment	13,743,308	272,953	(695,000)	13,321,261
Furniture and Fixtures	7,483,359	9,184	-	7,492,543
	P 74,675,864	P 282,137	P (695,000)	P 74,263,001

Roll forward analysis of acquisition costs for the year ended December 31, 2019

	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	P 33,867,069	P 780,460	P -	P 34,647,529
Land	18,801,668	-	-	18,801,668
Office Equipment	14,969,548	113,760	(1,340,000)	13,743,308
Furniture and Fixtures	7,189,579	308,768	(14,988)	7,483,359
	P 74,827,864	P 1,202,988	P (1,354,988)	P 74,675,864

Roll forward analysis of the accumulated depreciation/impairments:

	December 31, 2019	Depreciation/ Impairments for the year	Reversals	December 31, 2020
Buildings	P 21,142,444	P 123,494	P -	P 21,265,938
Office Equipment	11,744,078	968,264	(695,000)	12,017,342
Furniture and Fixtures	6,814,786	419,611	-	7,234,397
	P 39,701,308	P 1,511,369	P (695,000)	P 40,517,677

	December 31, 2018	Depreciation/ Impairments for the year	Reversals	December 31, 2019
Buildings	P 20,271,945	P 870,499	P -	P 21,142,444
Office Equipment	11,455,216	1,428,861	(1,139,999)	11,744,078
Furniture and Fixtures	6,266,719	548,067	-	6,814,786
	P 37,993,880	P 2,847,427	P (1,139,999)	P 39,701,308

Total Depreciation Expenses amount to P1,511,369 and P2,847,427 for the years ended December 31, 2020 and 2019, details of which are disclosed in Note 19.

No borrowing cost was capitalized as the additions to the bank premises, furniture and fixtures and office equipment are financed by the Bank's own fund.

Fair Value of Bank's Owned Lands and Buildings (Bank's Premises)

All bank premises (i.e. Land and Buildings and improvements) were appraised by an independent and licensed appraiser whose report was issued on May 15, 2019. The total Market Value of the Land stand at P57.95 Million while the total Market Value of Buildings and improvements stand at P32.57 Million. As at December 31, 2020, the bank premises does not have indicator of impairment.

11 - Investment Properties - net

Investment properties include land and buildings and improvements acquired by the Bank through foreclosure.

The gross carrying amounts and accumulated depreciation and impairment of investment properties are shown below.

December 31, 2020

	Land	Building and Improvements	Total
Cost	P 13,433,508	P 6,185,390	P 19,618,898
Less: Accumulated depreciation	-	(3,907,247)	(3,907,247)
Less: Allowance for impairment	(3,214,588)	(22,073)	(3,236,661)
Net carrying amount	P 10,218,920	P 2,256,070	P 12,474,990

December 31, 2019

	Land	Building and Improvements	Total
Cost	P 6,221,168	P 4,457,779	P 10,678,947
Less: Accumulated depreciation	-	(2,246,727)	(2,246,727)
Less: Allowance for impairment	(1,364,134)	(284,354)	(1,648,488)
Net carrying amount	P 4,857,034	P 1,926,698	P 6,783,732

Roll forward analysis of Investment Properties - net :

	Land	Building and Improvements	Total
Balance January 1, 2020			
Amount Net of Accumulated Depreciation	P 4,857,034	P 1,926,698	P 6,783,732
Reversal of Accumulated Depreciation/ Impairment and other adjustments	6,124,119	1,727,611	7,851,730
Depreciation during the year	-	(1,660,519)	(1,660,519)
Impairment and other adjustments during the year	(1,514,112)	262,280	(1,251,832)
Additions/Foreclosure	954,645	-	954,645
Disposals/Sold for Cash	(202,766)	-	(202,766)
Balance as of December 31, 2020 - Net of Accumulated Depreciation and Impairment	P 10,218,920	P 2,256,070	P 12,474,990

	Land	Building and Improvements	Total
Balance January 1, 2019			
Amount Net of Accumulated Depreciation	P 9,108,670	P 1,370,756	P 10,479,426
Disposals/Sold for Cash	(4,261,255)	(298,010)	(4,559,265)
Reversal of Accumulated Depreciation/ Impairment	-	1,201,881	1,201,881
Additions/Foreclosure	265,801	224,526	490,327
Disposals/Sold for Installment (SCR)	(197,391)	(243,520)	(440,911)
Depreciation during the year	-	(328,935)	(328,935)
Impairment during the year	(58,791)	-	(58,791)
Balance as of December 31, 2019 - Net of Accumulated Depreciation and Impairment	P 4,857,034	P 1,926,698	P 6,783,732

The market values of ROPA stand at P19.42 million and P14.76 million for the years ended December 31, 2020 and 2019 respectively.

The Bank sold certain investment properties, which resulted to a gain of P1,181,291 in 2020 and P5,643,377 in 2019 and are presented as part of Profit or (Loss) From Assets Sold under Other Income account in the statements of income and other comprehensive income.

12 - Other Assets - net

This account consists of:

	2020	2019
Software Costs	P 646,753	P 646,753
Less: Accumulated Amortization	(559,667)	(421,750)
Carrying Amount	87,086	225,003
Prepaid Expenses	334,314	232,226
Unused Office Supplies	311,581	274,224
Prepaid eDST	221,912	339,069
Others	63,892	68,813
Less: Allowance for Probable Losses - Others	-	(39,173)
	P 1,018,785	P 1,100,162

Prepaid expenses consist of prepayments on insurance and business taxes. Others include Meralco deposits.

13 - Total Deposit Liabilities

Details of this account as at December 31, 2020 and 2019 are disclosed below:

	2020	2019
Savings Deposit	P 200,280,585	P 210,927,923
Termed/Time Deposit	180,430,026	173,644,053
	P 380,710,611	P 384,571,976

Interest rates on deposit liabilities range between 0.25% to 3.50% per annum in 2020 and 2019, respectively. The related accrued interest payable amounting to P1,061,889 and P2,561,329 as at December 31, 2020 and 2019, respectively, is presented as Accrued Interest Expense on Financial Liabilities under the Accrued Expenses and Other Liabilities account in the statements of financial position (see Note 15).

In accordance with BSP regulations, the Bank is required to maintain regular reserves as deposit to the BSP against deposits at 2% and 3% of the outstanding balance thereof for 2020 and 2019, respectively. The Bank is in compliance with the reserve requirements of the BSP as at December 31, 2020 and 2019.

Total Interest Expense recognized in Deposit Liability amounted to P4,467,284 and P4,120,710 for the years ended December 31, 2020 and 2019, and the amount is included in the Statements of Income and Other Comprehensive Income under the line item - Interest-Deposits.

Deposit liabilities as at December 31, 2020 and 2019 are with maturity date of one year or less.

14 - Bills Payable

Bills Payable outstanding as at December 31, 2019 were availed from Land Bank of the Philippines, and secured by the bank's loan and receivables. This is subject to 6.50% interest with tenure of three months.

For the years ended December 31, 2020 and 2019 interest expense recognized for Bills Payable amounted to P46,412 and P636,551 respectively.

As at December 31, 2019, receivables with an outstanding balance of P1,414,308 composed of fourteen Promisory Notes were used as a collateral for the Bills Payables availed of from the Land Bank of the Philippines. The total credit line of the Bank until June 30, 2021 stands at P50 Million.

Bills payable as at December 31, 2020 and 2019 are with maturity date of one year or less.

15 - Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of:

	2020	2019
Unearned Income	P 3,568,538	P 4,162,209
Accrued Interest Expense	1,061,889	2,561,329
Withholding and Percentage Tax Payable	1,054,143	374,836
Accounts Payable	436,567	459,465
Income Tax Payable	237,951	959,058
Others	1,261,890	303,713
Total	P 7,620,978	P 8,820,610

The unearned income pertains to the deferred credits arising from sale of foreclosed property sold on an installment basis. Others includes accrued expenses, documentary stamp tax payable and SSS, Medicare and HDMF payables.

16 - Equity**Common Stock**

The Bank's authorized capital stock of P100,000,000 is divided into 1,000,000 shares of Common stock with Par Value of P100 each shares. Paid-up capital as at December 31, 2020 and 2019 amounted to P57,500,000.

Book Value per Share

December 31, 2020	-	$\frac{\text{Total Capital Funds}}{\text{Total Shares Outstanding}}$	$\frac{\text{P } 126,769,269}{575,000}$	=	P 220.47
December 31, 2019	-	$\frac{\text{Total Capital Funds}}{\text{Total Shares Outstanding}}$	$\frac{\text{P } 122,829,916}{575,000}$	=	P 213.62

The Total Capital Funds used in the above computation is those that are available to Common Stockholders, and the Total Shares Outstanding includes only Common Stocks. Book Value per Share on both years presented is in Philippine Peso.

Capital Management and Regulatory Capital

The BSP, as a lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent of its risk-weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total capital funds excluding:

- (a) Unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) Total outstanding unsecured credit accommodations to related interests (DOSRI);
- (c) Deferred tax asset or liability;
- (d) Accumulated equity in earnings of investee Bank where the Bank holds 50% or less but where the equity method of accounting has been applied; and,
- (e) Appraisal increment on property and equipment other than those allowed to be recognized in connection with a merger or acquisition.

Risk assets consist of total assets after excluding cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

As at December 31, 2020, the Bank's capital-to-risk assets ratio stands at 27.76%, which is compliant with the BSP's minimum requirement of 10.00%.

As at December 31, 2020, the Bank's Tier 1 capital-to-risk assets ratio stands at 27.09%.

This level of Capital can absorb losses or downward adjustment to Tier one Capital amounting to P80.72 Million before it falls lower than the 10 percent, the minimum level of capital or adequacy ratio.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

- (a) investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
- (b) investments in debt capital instruments of unconsolidated subsidiary banks;
- (c) investments in equity of subsidiary insurance companies and non-financial allied undertakings;
- (d) reciprocal investments in equity of other banks/enterprises; and,

(e) reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

The Bank's regulatory capital position (in millions of Philippine pesos) as at December 31, 2020 and 2019 based on the submission to BSP and using the prescribed computation is as follows:

	2020	2019
Tier 1 Capital		
Common stock	P 57.50	P 57.50
Retained Earnings	65.61	65.33
	P 123.11	P 122.83
Tier 2 Capital		
General loan loss provision	P 3.05	P 3.33
Total Qualifying Capital	P 126.16	P 126.16
Total Risk Weighted Assets	P 454.47	P 490.46
Capital Adequacy Ratio	27.76%	25.72%
Tier 1 Capital Adequacy Ratio	27.09%	25.04%

The Bank is not engaged in trading and has no foreign currency denominated assets subject to market risk. The qualifying capital is affected by audit adjustments while the risk-weighted asset and operational risk weight were both lifted in the Bank-submitted report to the BSP.

The total weighted asset includes operational risk factor amounting to P67.47 million.

As at December 31, 2020 and 2019, the Bank has a surplus reserves amounting to P3,811,258 for appropriation on the retirement benefit of its officers and employees.

17 - Profit From Assets Sold

	2020	2019
Income from Sale of Foreclosed Properties	P 1,181,291	P 5,518,378
Bank Premises, Furniture, Fixture and Equipment	149,999	P 124,999
Total	P 1,331,290	P 5,643,377

These are income generated by the bank through sale of its foreclosed properties. In case the sale of Real and Other Properties Acquired (ROPA) is through installment, the difference between the present value of gross receivables and booked value of asset sold is lodged to this account as an outright income.

18 - Compensation and Fringe Benefits

	2020	2019
Salaries and Wages	P 11,316,226	P 12,839,522
Other Benefits	5,023,545	5,660,997
Directors Fees	1,435,000	1,281,000
Provision for Pension & Other Post Retirement Benefits	1,123,683	-
SSS, Philhealth and Employees' Compensation Premium and Pag-IBIG	866,131	884,018
Contribution to Provident Fund other than contributions to plan assets	443,325	552,065
Medical, Dental and Hospitalization	20,286	2,849
Total	P 20,228,196	P 21,220,451

Retirement Benefits Obligations

In compliance with R.A. 7641, defined benefit plan, on which the Bank's obligation is to provide specific level of benefits for every year of service, the Bank will pay lump sum to its regular employees when they retire. The lump sum to be paid is directly related to the employees' basic salary in the final year of service multiplied by the number of year in service.

The retirement benefit is equivalent to the one-half month salary shall mean fifteen (15) days plus one-twelfth (1/12) of the 13th month pay and the cash equivalent of not more than five (5) days of service incentive leaves or approximately twenty-two and a half (22.5) days.

The Bank has obtained the latest actuarial valuation of its employees' retirement benefits as at December 31, 2020 computed using the projected unit credit method as of December 31, 2019 as required by PAS/IAS 19, Employee Benefits and PAS/IAS 26, Accounting and Reporting of Retirement Plan.

The reconciliation of the net defined benefit liability of the Bank for 2020 are as follow:

	Net benefit cost in the statement of revenue over expenses								
	Current service cost	Net interest	Net pension expense	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in financial assumptions	Return on plan assets	(Other Comprehensive loss) Subtotal	Transition (asset) liability	31 December 2020
Present value of defined benefit obligation	1,203,636	1,455,929	2,659,565	2,926,014	(593,021)	-	2,332,993	11,088,132	16,080,690
Fair value of plan assets	-	(1,535,882)	(1,535,882)	-	-	(398,110)	(398,110)	(12,596,293)	(14,530,285)
Net defined benefit liability	1,203,636	(79,953)	1,123,683	2,926,014	(593,021)	(398,110)	1,934,883	(1,508,161)	1,550,405

The following amounts were recognized in the financial statements for the year ended December 31, 2020.

Retirement expense/Current service cost	P	1,123,683
Remeasurement loss on retirement plan (OCI)		1,934,883
Retirement liability		1,550,405
Remeasurement loss on retirement plan (Equity) - transition liability		1,508,161

The amount recognized in Other Comprehensive income is the difference between remeasurement loss recognized as transition liability and Remeasurement loss on retirement plan as reported in the Other Comprehensive Loss.

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions. The fair value of plan assets by each class as at the end of the reporting period are as follow:

Government securities	P	13,677,541
Accounts payable of plan assets to employee leavers		(2,720,250)
Cash and cash equivalents		855,815
Trust fee payable		(3,071)
Fair value of plan assets	P	11,810,035

All plan assets do not have quoted prices in the active market except government securities. Cash and cash equivalents are with reputable financial institutions and are deemed to be standard grade.

The plan assets have diverse investments and do not have any concentration risk.

The latest actuarial valuation study of the retirement plan covers December 31, 2020. The principal assumptions used in determining pension for the defined benefit plan are shown below:

Discount rate	3.20%
Future salary increases	1.00%

The average duration of the defined benefit retirement liability at the end of the reporting period is ten years.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming if all other assumptions were held constant:

	2020	
	Increase of 1.0%	Decrease of 1.0%
Discount rate	12,647,141	14,175,704
Salary rate	14,187,378	12,752,047

Shown below are the 10-year maturity analyses of the undiscounted benefit payments of the Bank

	2020
Less than 1 year	P 6,105,283
More than 1 year to 5 years	1,455,428
More than 5 years to 10 years	6,139,944

19 - Depreciation and Amortization

	2020	2019
Investment Properties	P 1,660,520	P 328,936
Transportation Equipment	671,293	1,139,671
Furniture and Fixtures	419,611	548,067
IT Equipment	296,970	289,190
Software Cost	137,917	180,750
Buildings	123,494	870,499
Total	P 3,309,805	P 3,357,113

20 - Administrative Expense

This account is composed of the following:

	2020	2019
Security Services	P 3,702,276	P 3,650,749
Management and Other Professional Fees	1,229,922	612,547
PDIC Insurance	765,978	1,117,303
Other Insurance	410,528	213,486
Power, Light and Water	1,075,245	1,377,169
Fuel and Lubricants	634,463	764,007
Printing, Photocopying and Other Admin. Costs	587,045	673,379
Fees and Commission Expense	495,173	617,944
Postage, Telephone, Cables and Telegrams	450,892	445,348
Repairs and Maintenance	416,085	731,682
Litigation Expenses	347,431	20,297
Stationery and Supplies	228,965	356,686
Traveling Expenses	202,112	352,296
Documentary Stamps	116,394	155,160
Supervision Fees	110,897	97,035
Representation and Entertainment	95,688	231,665
Others	131,930	300,046
Total	P 11,001,024	P 11,716,799

Others includes fines, penalties and other charges, advertising and publicity, donations and charitable contributions, membership fees and dues, information technology expenses and periodicals and magazines.

21 - Impairments and Provisions

This account is composed of the following:

	2020	2019
Provision for Losses - Loans	P 3,409,945	P -
Provision for Losses - ROPA	1,251,832	15,437
Provision for Losses - Other Receivables	579,224	-
Total	P 5,241,001	P 15,437

22 - Earnings per Common Share

December 31, 2020	-	$\frac{\text{Net Income}}{\text{Total Shares Outstanding}}$	P	$\frac{2,431,192}{575,000}$	=	P 4.23
December 31, 2019	-	$\frac{\text{Net Income}}{\text{Total Shares Outstanding}}$	P	$\frac{10,140,707}{575,000}$	=	P 17.64

23 - RELATED PARTY TRANSACTIONS

The Bank's related parties include its DOSRI and key management personnel.

The summary of the Bank's transactions and outstanding balances with its related parties follows:

DOSRI Loans

The Bank grants loans to DOSRI. The General Banking Act and BSP regulations limit the amount of the loans to be granted by the Bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total capital funds or 15.00% of the total loan portfolio of the Bank, whichever is lower. The Bank complied with the restrictions on DOSRI loans as at December 31, 2020 and December 31, 2019.

Complete discussion of DOSRI loans is disclosed in Note 26.

Key Management Personnel Compensation

The key management personnel compensation and are shown as part of Employee benefits under Other Operating Expenses account in the statements of comprehensive income are as follows:

	<u>2020</u>	<u>2019</u>
Short-Term Employee Benefits	P 6,371,061	P 6,616,851
Officers' Allowances	648,300	530,700
Post-Employment Benefits Paid	-	2,076,958
Total	<u>P 7,019,361</u>	<u>P 9,224,509</u>

Other than the amounts presented above, there is no termination, share-base payment and other benefits received by key management personnel.

Other than transactions with key management personnel, the Bank has no related party transactions as of and for the period ended December 31, 2020. Due to this, the Bank is not required to file RPT form as prescribed in BIR Revenue Regulation 34-2020.

24 - INCOME TAX

Regular Tax – the corporation is subject to thirty percent (30%) income tax on taxable income of the corporation. Taxable income is derived after deducting earnings that were already subject to final tax (passive income) and allowable deductions from gross income of the corporation.

	December 31, 2020	December 31, 2019
Regular Corporate Income Tax	P 1,666,584	P 3,285,832
Less: Income Tax Paid First Three Quarters Under Regular Income Tax	(1,383,033)	(2,240,822)
Less: Creditable Income Tax BIR Form 1606 (CGT)	(45,600)	(85,952)
Still Due	P 237,951	P 959,058

Income tax expense presented in the income statement consists of the following:

	2020	2019
Income Tax Expense - Deferred	P 1,749,760	P -
Income Tax Expense - Normal	1,666,584	3,285,832
Income Tax Expense - Final	676,371	874,759
Total Income Tax Expense	P 4,092,715	P 4,160,591

The Bank should account for the tax consequences of transactions and other events in the same way it accounts for the transactions or other events themselves, it is inherent in the recognition of an asset or liability that that asset or liability will be recovered or settled, and this recovery or settlement may give rise to future tax consequences which should be recognized at the same time as the asset or liability. The Management believes that the future tax benefits (Effect on future cash flows) arising from Deferred Tax Asset from allowance for losses for loans and receivables may not be fully realizable given that the provision for losses may not result to the actual write-off of accounts. The Bank's management has assessed that the Bank will not recognize any deferred tax assets as of December 31, 2020:

As of December 31, 2020, the Bank recognized a deferred tax liability amounting to Php 1.75 million on the difference between the tax and accounting books as detailed below.

Investment properties - PFRS books	P 12,474,990
Investment properties - Tax books	6,642,457
Difference	P 5,832,533
Tax Effect at 30%	P 1,749,760

25 - EVENTS AFTER THE REPORT DATE

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which are relevant to the Bank:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Bank would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020. Management assessed that the change in tax rate will not have significant impact on the Bank's financial statements as at reporting date.

26 - REQUIRED DISCLOSURES BASED ON SECTION 174 OF THE MORB.

The following are required disclosure based on Section 174 of the Manual of Regulations for Banks, and as amended by the Bangko Sentral ng Pilipinas Circular No. 1074 issued on February 07, 2020.

	2020		2019	
Capital Position:				
Common Equity Tier 1 (CET1) - In millions of Pesos	P	123.11	P	122.83
Tier I Capital - In millions of Pesos	P	123.11	P	122.83
Total Qualifying Capital - In millions of Pesos	P	126.16	P	126.16
Total Risk Weighted Assets - In millions of Pesos	P	454.47	P	490.46
Capital Adequacy Ratio		27.76%		25.72%
TIER 1 (CET1) Ratio		27.09%		25.04%
CET1 Ratio		27.09%		25.04%
Leverage Ratio		24.62%		23.62%
Minimum Liquidity Ratio		53.48%		38.23%
Return on average equity		1.95%		8.60%
Return on average assets		0.47%		1.97%
Net interest margin		8.31%		9.40%
Capital Instrument Issued		Please refer to Note 16		
Earnings per Common Share	P	4.23	P	17.64

Significant Credit Exposures

Based on BSP benchmark an exposure is significant if it amounts to at least 30% of the total loan exposure or at least ten percent (10%) of TIER 1 capital.

Industry	December 31, 2020			December 31, 2019		
	In Millions of Pesos	Percent to Total Loan Exposure	Ratio to Tier 1 Capital	In Millions of Pesos	Percent to Total Loan Exposure	Ratio to Tier 1 Capital
Real Estate Activities	P 73.63	28.99%	59.95%	P 66.47	21.10%	54.11%
Wholesale and Retail Trade, Repair of Motor Vehicles,	38.83	15.29%	31.61%	46.31	14.70%	37.70%
Activities of Households as Employers and Undifferentiated	34.18	13.46%	27.83%	35.76	11.35%	29.11%
Agriculture, Forestry and Fishing	24.22	9.54%	19.72%	29.57	9.38%	24.07%
Manufacturing	22.92	9.03%	18.66%	29.44	9.34%	23.97%
Construction	21.59	8.50%	17.58%	54.20	17.20%	44.13%
Salary Based and Other Consumption Loans	12.85	5.06%	10.46%	29.47	9.35%	23.99%

Breakdown of loans as to security:

a. Secured:

Real Estate Mortgage

b. Unsecured

Total Gross of General Provision

2020	2019
229,750,429	274,123,570
24,248,853	40,958,191
253,999,282	315,081,761

Breakdown of Loans as to Status per Product Line:

	In thousand of Pesos					
	December 31, 2020			December 31, 2019		
	Current	Past Due Performing	Past Due Non-Performing	Current	Past Due Performing	Past Due Non-Performing
Medium Scale Enterprise	P 40,467	P 850	P -	P 62,301	P 549	P 4,030
Small Scale Enterprises	24,478	1,309	706	24,695		671
Other Agricultural Credit Loans	17,206	40	3,758	16,244	612	2,675
Loans to Individuals for Personal Use Purposes	12,506	61	281	28,744	182	541
Housing Loans	6,910	-	-	1,341		-
Loans to Private Corporation	5,741	-	-	2,969		-
Microenterprise Loans	4,337	-	-	-		-
Agrarian Reform Loans	2,875	-	-	3,242		-
Other Purposes	104,678	9,373	18,929	149,369	3,661	13,255
TOTALS	P 219,198	P 11,633	P 23,673	P 288,906	P 5,004	P 21,172

Information on DOSRI / Related Party (RP) Loans:

	2020		2019	
	Secured	Unsecured	Secured	Unsecured
Current DOSRI/RP Loans	-	-	P 1,581,989	-
Past due DOSRI/RP Loans - Performing	-	-	-	-
Past due DOSRI/RP Loans -Non-Performing	-	-	-	-

	DOSRI Loans	Related Party (RP) Loans (Inclusive of DOSRI Loans)	DOSRI Loans	Related Party (RP) Loans (Inclusive of DOSRI Loans)
Outstanding Amount in Million of Peso	-	- P	1,5820	-
a. Percent of total DOSRI/RP loans to total loan portfolio	0.00%		0.502%	0.00%
b. Percent of unsecured DOSRI/RP loans to total DOSRI/RP loans	0.00%		0.000%	0.00%
c. Percent of past due DOSRI/RP loans to total DOSRI/RP loans	0.00%		0.000%	0.00%
d. Percent of non-performing DOSRI/RP loans to total DOSRI/RP loans	0.00%		0.000%	0.00%

There is nothing to disclose about nature and amount of contingencies and commitments arising from off-balance sheet items.

Provisions for Probable Losses:

- | | | |
|---|---|------------|
| a. Provision for Losses - Loans | P | 3,409,945 |
| b. Allowance for Probable Losses - Specific reserve | | 23,509,209 |
| c. General Loan Loss Provision | | 3,053,124 |
- d. How Determined: Followed guidelines prescribed by Bangko Sentral ng Pilipinas, for complete discussion please refer to corresponding Notes to Financial Statement.

The Bank establishes allowance for impairment losses on loans and other risk assets in accordance with the requirements of the BSP in the revised Appendix 15 issued together with BSP Circular 1011. Please refer to Notes 2.3 - Impairments for more detailed discussions.

Aggregate amount of secured liabilities and assets pledged as security:

- | | | |
|--|---|-----------|
| a. Secured liabilities as of December 31, 2019 | P | 3,792,754 |
| b. Assets pledged as security: | | |

As at December 31, 2019, receivables with an outstanding balance of P1,414,308 composed of fourteen Promisory Notes were used as a collateral for the Bills Payables availed of from the Land Bank of the Philippines. The total credit line of the Bank until June 30, 2021 stands at P50 Million.

Discussion of accounting Policies:

Discussion of accounting policies which include, general accounting principles, changes in accounting policies/ practices, policies and methods for determining when assets are impaired, recognizing income on impaired assets and losses on non-performing credits, income recognition, loan fees, premiums and discounts, bank premises/fixed assets, income taxes are all found in the Note 2 of this financial statement.

27 - Commitments and Contingencies

The following are the significant commitments and contingencies involving the Bank:

- In the normal course of the Bank's operations, there are outstanding commitments and contingent liabilities such commitments to extend credit, liability to safekeep collateral of borrowers, which are not reflected in the accompanying financial statements. Management believes that, as of December 31, 2020, losses, if any, that may arise from these commitments and contingent liabilities will not have a material effect on the financial statements of the Bank.
- The Bank has no pending legal cases arising from its normal operation that will put the Bank as defendant as a result of violation of transactions against its clients/depositors.
- The Bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the Bank into obligation in case of non-compliance by the buyer.
- The Bank had no outstanding outward and inward bills for collection at the end of the year.

28 - SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Requirements Under RR No. 15-2010

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) as mandated by Revenue Regulations (RR) No. 15-2010. These taxes and licenses information has to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The Bank reported and/or paid the following types of taxes for 2020.

Percentage Tax (GRT)	P	2,104,550
1702Q for this year		(1,383,033)
Documentary Stamp		1,069,789
1702-RT for year 2019 but paid this year		959,058
Final Income Taxes Withheld (Deposits From 1602)		893,457
Withholding Tax on Income from Investments and Deposits		676,371
Withheld from Salary & Wages & Fringe Benefits (Form 1601-C)		599,764
Creditable Income Taxes (Expanded-Form 1601-E)		299,174
Real Property Tax		169,314
Withholding Tax on Amount Withdrawn from Decedent's Deposit Account		129,955
TOTAL TAXES PAID	P	5,518,399

Gross Receipts Tax (GRT)

On January 29, 2004, RA No. 9238 reverted the imposition of GRT on banks and financial institutions. This law is retroactive from January 1, 2004. Further, on May 24, 2005, the amendments on RA No. 9337 was approved imposing the following rates to be collected on gross receipts derived from sources in the Philippines by all banks and non-bank financial intermediaries:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

With maturity period of five years or less	5%
With maturity period of more than five years	1%

(b) On dividends and equity shares in the net income of subsidiaries 0%

(c) On royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income under Section 32 of the NIRC. 7%

(d) On net trading within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments 7%

Provided, however, that in case the maturity period referred to in paragraph (a) is shortened due to pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

Distribution/Concentration of credits:

	2020	
	In Millions	Ratio
Real Estate Activities	P 73.63	28.99%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles	38.83	15.29%
Activities of Households as Employers and Undifferentiated Goods-and-Services-Producing		
Activities of Households for Own Use	34.18	13.46%
Agriculture, Forestry and Fishing	24.22	9.54%
Manufacturing	22.92	9.03%
Construction	21.59	8.50%
Salary Based and Other Consumption Loans	12.85	5.06%
Accommodation and Food Service Activities	11.56	4.55%
Transportation and Storage	2.50	0.98%
Education	2.51	0.99%
Human Health and Social Work Activities	0.43	0.17%
Other Service Activities	8.78	3.46%
Total	P 254	100.00%

	2019	
	In Millions of Pesos	Concentration Ratio
Real Estate Activities	P 66.47	21.10%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles	46.31	14.70%
Activities of Households as Employers and Undifferentiated Goods-and-Services-Producing		
Activities of Households for Own Use	35.76	11.35%
Agriculture, Forestry and Fishing	29.57	9.38%
Manufacturing	29.44	9.34%
Construction	54.20	17.20%
Salary Based and Other Consumption Loans	29.47	9.35%
Accommodation and Food Service Activities	13.60	4.32%
Transportation and Storage	2.69	0.85%
Education	2.22	0.70%
Human Health and Social Work Activities	0.34	0.11%
Other Service Activities	5.01	1.59%
	P 315.08	100.00%

As at December 31, 2019, receivables with an outstanding balance of P1,414,308 composed of fourteen Promissory Notes were used as a collateral for the Bills Payables availed of from the Land Bank of the Philippines. The total credit line of the Bank until June 30, 2021 stands at P50 Million.

The Bank establishes allowance for impairment losses on loans and other risk assets in accordance with the requirements of the BSP in the revised Appendix 15 issued together with BSP Circular 1011. Please refer to Notes 2.3 - Impairments for more detailed discussions.

	2020	2019
Balance at beginning of year	P 23,753,068	P 24,994,121
Additions (reversals) to allowance	2,809,265	(776,360)
Write-off/Other Deduction	-	(464,693)
Balance at the end of the year	P 26,562,333	P 23,753,068

In 2019, the bank wrote-off loans and receivables amounting to P464,693 composed of seventeen accounts through a Board Resolution carried on December 18, 2019.

9.a - Sales Contract Receivables

This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of selling price.

	2020		2019	
Sales Contract Receivable - Current and Performing	P	12,871,970	P	15,560,571
Sales Contract Receivable - Non-Performing		4,930,022		4,413,368
Gross Sales Contract Receivable		17,801,992		19,973,939
Less: Impairment Loss/ Allowance		(2,670,594)		(2,127,342)
Sales Contract Receivable - Net	P	15,131,398	P	17,846,597

Sales Contract Receivable represents assets acquired in settlement of loans through foreclosure or dacion en pago subsequently sold on installment basis whereby the title to the said property is transferred to the buyer only upon full payment of the account. This account is recorded initially at present value of the installment receivable discounted at the imputed rate of interest. Discount is amortized over the term of the sales contract by crediting interest income using effective interest method. The difference between the present value of the sales contract receivable and the derecognized assets is recognized in profit or loss at the date of sale in accordance with PFRS 15.

In 2020 and 2019, the Bank provided additional allowance for sales contract receivables amounting to P543,252 and P1,261,217, respectively.

These receivables earn an interest ranging from 8% to 14%. The total Interest Income recognized in these receivables amounted to P1,710,210 and P2,953,792 for the years ended December 31, 2020 and 2019, respectively, and the amount is included in the Statements of Income and Other Comprehensive Income under the line item - Interest - Loans and Other Receivables.

Maturity Analysis of Sales Contract Receivables:

	2020		2019	
Short Term (one year or less)	P	183,912	P	324,547
Medium Term (>1 year to 5 years)		14,947,486		14,417,693
Long Term (>5 years)		-		3,104,357
Total	P	15,131,398	P	17,846,597

10 - Bank Premises, Furniture, Fixtures and Equipment - net

The gross carrying amounts of the fixed assets and their respective accumulated depreciation of bank premises, furniture, fixtures and equipment shown below.

Details of net carrying amount as at December 31, 2020

	Acquisition Costs	Accumulated Depreciation	Net Carrying Amount
Land	P 18,801,668	P -	P 18,801,668
Buildings	34,647,530	(21,265,938)	13,381,592
Office Equipment	13,321,260	(12,017,341)	1,303,919
Furniture and Fixtures	7,492,544	(7,234,398)	258,146
P	74,263,002	P (40,517,677)	P 33,745,325

Details of net carrying amount as at December 31, 2019

	Acquisition Costs	Accumulated Depreciation	Net Carrying Amount
Land	P 18,801,668	P -	P 18,801,668
Buildings	34,647,529	(21,142,443)	13,505,086
Office Equipment	13,743,308	(11,744,078)	1,999,230
Furniture and Fixtures	7,483,359	(6,814,786)	668,573
P	74,675,864	P (39,701,307)	P 34,974,557

Cristobal C. Umale, CPA

48 Candelaria Street, Rosario Complex, San Pedro City (Laguna)

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Mobile Number - 0908-814-7606

External Auditor's Report

*Under MORB Section 174, MORB Appendix 55, BSP Circular 1074 and
1040*

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

Cristobal C. Umale, CPA
48 Candelaria Street, Rosario Complex, San Pedro City (Laguna)
www.ccumale.com; Email - info@ccumale.com
Mobile Number - 0908-814-7606

March 26, 2021

To the Bangko Sentral ng Pilipinas

A. Mabini St. Cor. P. Ocampo St., Malate, Manila, Philippines 1004

SUBJECT: External Audit Report of the Banco Laguna, Inc. (A Rural Bank Since 1965)

I conducted the annual financial audit of the Banco Laguna, Inc. (A Rural Bank Since 1965), a bank located at No. 32 Rizal Street, Pagsanjan Laguna as of and for the year ended December 31, 2020.

Pursuant with the requirements of Section 174 of the Manual of Regulation for Banks (MORB), attached to this correspondence are the following documents:

1. Consolidated Certification of the undersigned,
 - Certification required by BSP Circular 1074;
 - Certification required by BSP Circular 1040;
 - Certification for Non-Issuance of a Letter of Comments.
2. Comparison of Audited Financial Statements and Submitted Consolidated Balance Sheet & Income Statement;
3. Certificate for Non-Issuance of a Letter of Comments

I am hoping that you find my submission in order.

Very truly yours,



Cristobal C. Umale
External Auditor

Consolidated Certifications of the External Auditor

Under MORB Section 174, MORB Appendix 55, BSP Circular 1074 and 1040

Banco Laguna, Inc. (A Rural Bank Since 1965)

Cristobal C. Umale, CPA

48 Candelaria Street, Rosario Complex, San Pedro City (Laguna)

www.ccumale.com; Email - info@ccumale.com

Mobile Number - 0908-814-7606

CERTIFICATIONS

(Under MORB Section 174 & MORB Appendix 55)

I hereby certify the following:

That I am the External Auditor of the Banco Laguna, Inc. (A Rural Bank Since 1965) (the Bank), for the Financial year ended December 31, 2020;

That my audit commenced and started on November 09, 2020, undersigned performed preliminary and interim audits even before the year ended, and the audit was terminated on March 26, 2021 upon submission of the Audited Financial Statements;

That I discussed with the Bank all proposed adjusting journal entries and all required disclosures attached to Notes to Financial Statements as required by Section 174 of the Manual of Regulation for Banks, including all our audit findings and exceptions;

That the Financial Audit Report (FAR) and the Notarised Certification for Non-issuance of a Letter of Comments (LOC) are both submitted to the Board of Directors on March 26, 2021;

That I, or any members of my immediate family do not have any direct or indirect financial interest with the bank and that my independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants;

Certification required under BSP Circular 1074:

I hereby certify that I maintain confidentiality and adhere to the provision in the Audit Engagement Contract regarding the read-only-access to the Report of Examination (ROE) granted to the undersigned. I hereby certify that any information contained in the ROE that came to my knowledge shall be treated appropriately and confidentially;

That the Audited Financial Statements contains the disclosure required under Section 174;

Additional Certification required under BSP Circular 1040:

During the course of my audit, I did not find any material finding involving fraud or error;

That there is no actual or potential losses, the aggregate of which amounts to at least ten percent (10%) of the consolidated asset of the Bank;

That there is no finding on matter and issue about the Bank's ability to continue as a Going Concern, since the total resources is adequate to cover all claim of creditors.

That there is no material internal control weakness which may lead to financial reporting problems;

That there is no findings on matters of corporate governance that may require urgent action of the Bangko Sentral ng Pilipinas nor any matters affecting the conditions and soundness of the Bank.



That there is no material breach of laws or Bangko Sentral rules and regulations such as but not limited to the prescribed capital adequacy ratio, significant deficiency in the allowance for credit losses, material weaknesses in the fair value measurements methodology, and significant vulnerabilities to money laundering and combating the financing of terrorism.

That, the accountability of external auditor is based on matters within normal coverage of an audit conducted in accordance with Philippine Standards on Auditing (PSA).

Certification on the Non-Issuance of A Letter of Comments:

That all issues identified by the External Auditor were addressed and that I hereby certify that there is no material finding on the Bank's Risk Management and Internal Control Systems that warrant the issuance of a Letter of Comments.


Cristobal C. Umale, CPA

TIN No. 207-149-953-000

March 26, 2021

SUBSCRIBED AND SWORN TO BEFORE ME, on this APR 23 2021 day of 2021 in

SINILOAN, LAGUNA

WITNESS MY HAND AND SEAL on the date and at the place first above written.

Doc. No. 148
Page No. 31
Book No. 36
Series of 2021.


ATTY. MA. FRANCES JOANNA M. REALEZA
NOTARY PUBLIC
UNTIL DECEMBER 31, 2021
PTR NO. 8815920/1-4-2021
ROLL NO. 69525
IBP NO. 121274/1-4-2021
MCLE COMP. NO. VI-0017393
SINILOAN, LAGUNA

**Comparison of Audited Financial Statements and
Submitted Consolidated Balance Sheet & Income
Statement**

Banco Laguna, Inc. (A Rural Bank Since 1965)

Banco Laguna, Inc. (A Rural Bank Since 1965)

No. 32 Rizal Street, Pagsanjan Laguna

**Comparison of Audited Financial Statements and
Submitted Consolidated Balance Sheet & Income Statement**

December 31, 2020

<i>(In Thousand of Pesos)</i>				
Account Titles	Audited Amounts	Submitted Report	Discrepancy	
Cash and Other Cash Items	P 8,380	P 8,380	P	-
Due from Bangko Sentral ng Pilipinas	11,915	11,915		-
Due from Other Banks	91,750	91,750		-
Investment in Securities Measured at Amortized Cost	109,548	109,548		-
Loans and Other Receivables - net	249,570	249,570		-
Bank Premises, Furniture, Fixtures and Equipment - net	33,745	33,745		-
Investment Properties - net	12,475	12,475		-
Other Assets - net	1,019	1,019		-
Total Assets	P 518,401	P 518,401	P	-
Liabilities and Capital Funds				
Deposit Liabilities	P 380,711	P 380,711	P	-
Accrued Expenses and Other Liabilities	7,621	7,621		-
Deferred Tax Liabilities	1,750	1,750		-
Retirement liability	1,550	1,550		-
Total Liabilities	P 391,632	P 391,632	P	-
Capital Stock - Common	P 57,500	P 57,500	P	-
Retained Earnings Reserve	3,811	3,811		-
Retained Earnings Free	65,885	65,885		-
Remeasurement Loss on Retirement Liability	(427)	(427)		-
Total Capital Funds	P 126,769	P 126,769	P	-
Total Liabilities and Capital Funds	P 518,401	P 518,401	P	-
Total Gross Income	P 55,321	P 55,321	P	-
Total Gross Expenses	(50,955)	(50,955)		-
Net Income Before Comprehensive Income	P 4,366	P 4,366	P	-
Other Comprehensive Loss	(1,935)	(1,935)		-
NET INCOME	P 2,431	P 2,431	P	-

Interim audits were performed, and all possible adjustments were already incorporated in the Trial Balance submitted for audits.